Telecommunications for Nova Scotians

A Tradition of Service

Exchange Service
Long Distance
Key Systems
PBX Systems
Centrex
Broadcast Services
Manual Mobile Telephone Service
Yellow Pages
Dedicated Circuits
Business Telephones
Residence Telephones
Zenith
Zone Phone
Touch Tone
Directory Assistance
Emergency Reporting Service
Coin Telephones
White Pages Directory
Private Paging Systems
Wats
Multicom
Tone Paging
Datapac
800 Service
Envoy 100
Autotel
Integrated Voice Messaging Systems
Voice Paging
Datarouter
Extended Direct Distance Dialing
iNet
Megaplan
Traderoute
Custom Calling Services
Teleconferencing
Conference 600
Private Mobile Systems
Datalink
Data Network Devices
Customer Network Management
900 Service
Dat-O-Net
Dataphone
Integrated Office System Products
Meridian Voice/Data System

1986 Annual Report of the Directors to the Shareholders of Maritime Telegraph and Telephone Company, Limited
Incorporated under the laws of the Province of Nova Scotia

Company Purpose

The 1986 Annual Report summarizes the activities of the Company in its 77th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance, and for our employees.

Maritime Tel & Tel is an investor-owned, provincially regulated company, providing telephone and a wide range of other telecommunications services throughout Nova Scotia. The Company has over half a million telephones in service, connected through a $1 billion network of local and long distance switching, transmission and terminal equipment offices throughout the province.

MT&T Operations

- ● Business Office
- ○ Phone Centre
- ● Switching Centre
- ○ Microwave Facility
- ● Telecom Canada Fibre Optics Network
- □ In-Province Fibre Optics Network 1987 Completion

Moving toward a century of service

Maritime Telegraph and Telephone Company, Limited was incorporated in 1910 although it did not complete its purchase of the Nova Scotia Telephone Company and the Queen's County Telephone Company until mid 1911. Following that it became the major provider of telephone services to the province of Nova Scotia.

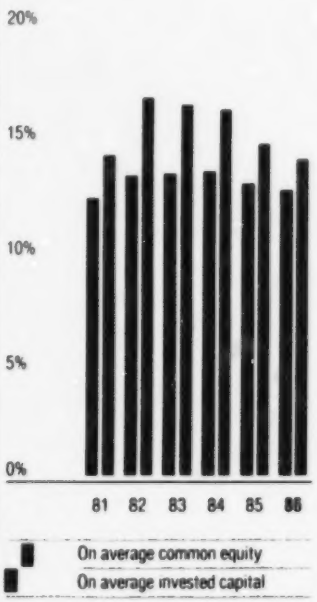
MT&T has now passed a milestone in its history, providing service to Nova Scotia for slightly more than 75 years and moving toward its centennial.

Today, MT&T is still providing reliable telephone service from Gabarus to Pictou to Sable Island to Halifax to Sandy Cove. In fact, anywhere Nova Scotians live MT&T is there. But today telephone service and highly sophisticated voice, data, paging, mobile and satellite services are provided through a state-of-the-art province-wide network, employing the latest digital switching and fibre optic transmission systems.

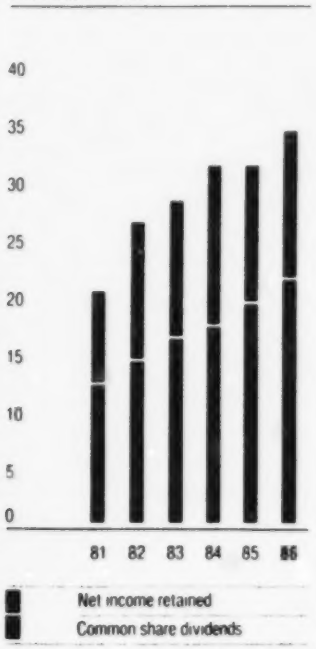
Report Highlights

		1986	1985	% Change
Operating Statistics *(thousands)*	Revenues	**$ 336 416**	$ 310 157	8 5
	Expenses	**234 646**	217 385	7 9
	Net income applicable to common shares			
	Before extraordinary item	**32 011**	31 230	2 5
	After extraordinary item	**33 522**	31 230	7 3
	Construction program expenditures	**129 040**	114 000	13 2
	Telecommunications property	**1 016 592**	924 090	10 0
Financial Statistics	Earnings per common share			
	Before extraordinary item	**$ 1.47**	$ 1 50	(2 0)
	After extraordinary item	**$ 1.54**	$ 1 50	2 7
	Dividends declared per common share	**$ 0.94**	$ 0 92	2 2
	Return on average common equity	**13.8%**	14 4%	(4 2)
	Return on average invested capital	**12.4%**	12 7%	(2 4)
	Equity per common share, at December 31	**$ 11.59**	$ 10 85	6 8
	Average common shares *(thousands)*	**21 804**	20 871	4 5
	Debt ratio, at December 31	**52.6%**	51 4%	2 3
Other Statistics	Network access services, at December 31	**400 392**	385 378	3 9
	Long distance messages *(thousands)*	**53 906**	59 645	7 1

Rates of Return



Common Share Earnings



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Over the years, MT&T has evolved from its historical position as the provider of telephone service to Nova Scotians into the broad-based telecommunications business it is today.

While to many Nova Scotians MT&T will always be 'the telephone company', many others know it as the leading Nova Scotian supplier of services ranging from data and broadcast transmission facilities to business communications equipment.

A multi-faceted company

MT&T's evolution into a multi-faceted telecommunications company is continuing with the expansion of the Company's business into new areas for future revenue growth. The Company is actively exploring a number of these business development opportunities right now.

Merging technologies - new services

Many opportunities to fulfil our customers' growing communications needs have emerged from the integration of telecommunications systems with other related technologies. The merging of telecommunications with data processing and office systems has created products which combine many familiar office devices and communications facilities into a single system.

The Company has identified 'integrated office systems' as a major new business opportunity, and in 1986 MT&T entered this new marketplace with the introduction of the Meridian DV-1 integrated data and voice office system and the LANSTAR local area network.

An MT&T success story

The Company already has a track record of using its expertise in technology management as the springboard for developing successful business ventures.

MT&T's mobile communications services have grown rapidly in recent years to include thousands of mobile units serving customers in a variety of situations all over the province.

During the past year, the Company did much of the work necessary to introduce cellular mobile telephone service to customers in the metropolitan Halifax-Dartmouth area in 1987. Also in 1987, the Company plans to expand its popular Autotel direct-dial mobile telephone service throughout the province and to further develop its successful paging services.

MT&T in a more competitive world

Against the backdrop of the technological resources available to the Company, the social and economic environment in which the Company operates is also creating new challenges. MT&T has successfully made the transition to a more freewheeling competitive environment, and 1986 was a successful year in all of the Company's competitive products and services.

In particular, two major areas of competitive activity — sales of data transmission services and business communications equipment — both recorded solid results in 1986. Led by strong demand for Envoy 100 electronic mail service, sales of data communications services increased 18% over 1985 and are a growing percentage of the Company's revenues. MT&T also had a good year in competitive sales of business communications equipment, winning three out of every four new business telephone sales in 1986.

This successful sales effort is due to a combination of good products, good service and hard work on the part of employees to uphold MT&T's reputation for good service to all its customers.

Our growing business

In 1986, MT&T also recorded steady growth in its basic telephone business. The number of individual telephone lines increased by 3.9%, bringing the total number at year end to 400,392, of which 40% are now Touch Tone compared to 32.5% in 1985. As well, MT&T customers placed 7.1% more long distance calls in 1986 than they did the previous year and revenues from long distance services were up 10.6%.

To meet the growing requirement for telephone and telecommunications services, MT&T constructed extensive additional switching and transmission facilities in 1986. Total capital expenditures for the year were $129 million. From 1986 through to 1988, the Company expects to spend $400 million on growth and expansion projects.

The Company is making extensive use of fibre optic and digital technologies as the most cost-effective means of expanding the network as well as providing the modern facilities needed to run a competitive, customer-oriented telecommunications business.

A strong financial foundation

By year-end 1986, MT&T joined a select group of Canadian companies when its investment in plant and equipment exceeded $1 billion.

With a successful year in the sales of all Company services, total operating revenues increased 8.5% to $336.4 million, up from $310.2 million in 1985, and the net income available to common shareholders rose from $31.2 million in 1985 to $33.5 million in 1986.

Earnings per average common share were $1.54 compared to $1.50 in 1985 and the rate of return on average common equity was 13.8% compared to 14.4% in 1985.

During the past year, additional equity was raised from the issue of one million common shares through the Company's Dividend Reinvestment and Employee Stock Savings Plans.

Since the late 1970s, the annual declared dividends of the Company have increased each year. Most recently, the Board of Directors approved an increase in the quarterly dividend effective October 15, 1986, from 23 cents per common share to 24 cents per common share.

Contribution to MT&T

Early in 1987 directors Seymour Kenney and Dr. Catherine Wallace are retiring from the Company's Board of Directors.

Mr. Kenney, who joined the Board in 1965, has more recently been chairman of the Human Resources Committee, and Dr. Wallace has been a member of the Company's Board since 1977. Both Mr. Kenney and Dr. Wallace have been valued members of MT&T's Board of Directors.

The Company appreciates their contribution over the years and extends sincere thanks and best wishes to both of them.

Blueprint for the future

Recognizing that technological and environmental changes are bringing MT&T to yet another crossroads in its history, the Company's executive has devoted considerable attention to determining MT&T's future direction.

The result is a clear commitment to be the leading provider of telecommunications and related businesses in Nova Scotia. MT&T will use technologies as varied as digital switching and transmission, fibre optics, common channel signalling and cellular radio as opportunities to provide for our customers' diverse and expanding communication needs.

The Company is in an excellent position to make the most of these opportunities. MT&T's employees have a successful record of harnessing new technology to expand and improve telecommunications services, and the Company enjoys a strong financial position and a good reputation with its customers. These are all assets which will help guarantee future success and the continued solid performance of MT&T as an investment for its shareholders.

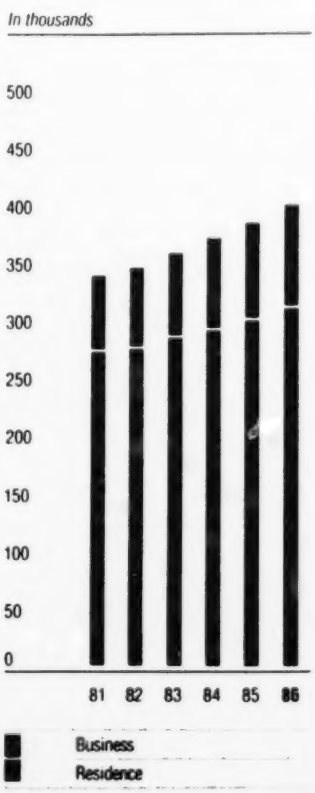
Looking ahead

MT&T is committed to excellence in service, quality and reliability — business strategies aimed at customer loyalty and long-term revenue growth. By focussing on the quality of MT&T's service to its customers, the Company will be able to meet its goal of providing shareholders with an attractive return on their investment while providing employees with challenging work and stable employment.

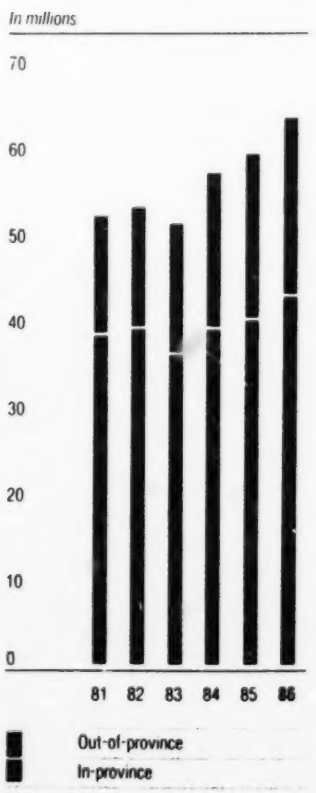
We believe that through our efforts to meet this goal, MT&T can be assured of a bright future in 1987 and beyond.

Ivan E.H. Duvar
President and Chief Executive Officer
Halifax, Nova Scotia
February 20, 1987

Network Access Services



Long Distance Messages



Seventy-five years ago, MT&T became the major provider of telephone service to Nova Scotians, and the following capsule history of the Company shows its long tradition of service to this province and its people.

In 1986, as in 1911, MT&T's commitment to serving Nova Scotians remains the foundation of the business.

1874: In the shadow of Beinn Bhreagh . . .

In the town of Baddeck, Cape Breton are two reminders of a great man whose invention gave rise to an entire industry. Alexander Graham Bell lived at a stately summer home just outside Baddeck, called *Beinn Bhreagh* (Gaelic for *'beautiful mountain'*).

Bell's many accomplishments are also immortalized at the Alexander Graham Bell Museum in Baddeck. The presence in Baddeck of Beinn Bhreagh and the Bell museum are constant reminders to MT&T employees of their heritage of service to others that is as much Dr. Bell's legacy as is his invention, the telephone.

Twenty years before Bell built Beinn Bhreagh, his 'electric speaking telephone' was seen as more of a novelty than a necessity. But by 1894, when Bell was settled in Baddeck, the telephone had grown so popular that small companies like the Nova Scotia Telephone Company and the Valley Telephone Company were building long distance lines and opening exchanges. Mr. Bell's invention was fast becoming big business.

1911: Consolidation and centralization

By the turn of the century, the telephone had truly become an 'invisible link' between many homes and businesses. Aerial wires linked subscribers to a switchboard, where "Central", as the local operator was known, connected calls from one subscriber to another. But the demand for telephone service was growing beyond the ability of the smaller telephone companies to keep up. The situation clearly called for the consolidation of these small companies into one organization which would have the resources to provide telephone service to a demanding public.

MT&T — Serving Nova Scotians

And so, the Maritime Telegraph and Telephone Company was formed from three existing companies (Eastern Telephone, Valley Telephone and Yarmouth Amalgamated) and incorporated in 1910 to serve the telephone needs of Nova Scotians. A year later, it had acquired the Nova Scotia Telephone Company and the responsibility of serving over 12,000 telephones in the province, and that number more than doubled within ten years.

1914: War wounds . . .

A world divides along a battlefield and society is changed forever. Behind the lines and across an ocean, MT&T coped with the scarcity of necessary supplies and staff, even as it was called on to bolster the province's defence communications systems.

MT&T employees were ready to give service above and beyond the call of duty on Dec. 6, 1917, when the explosion of a munitions ship in Halifax Harbour devastated the city, killing 2000 people and wounding 10,000. Employees, some of them in bloodsoaked bandages, worked feverishly to reestablish telephone service so that the stricken city would have a lifeline to outside help.

1931: Between two wars . . .

As the world moved out of war and into the Great Depression, expansion of the Canadian telecommunications system seemed to halt and even regress, as thousands of subscribers were forced to give up their telephones. In Nova Scotia alone the Depression cut 3000 telephones from the list.

Yet in 1931, in the heart of the Depression, MT&T and six other major telephone companies signed an agreement which within a year resulted in the formation of the TransCanada Telephone System (TCTS — today known as Telecom Canada) and the completion of the first cross-Canada long distance network.

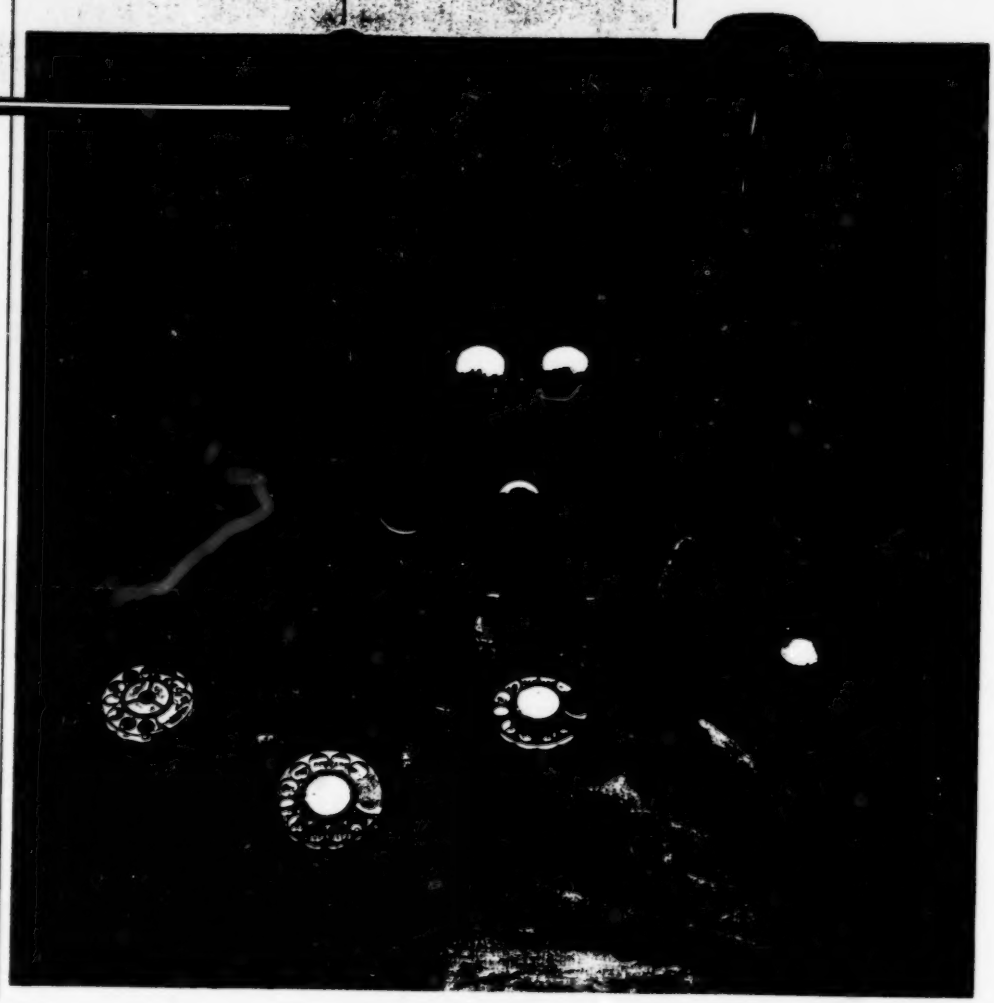
In 1939, the world was again plunged into war. Sadly, some of the MT&T employees called to the war effort never came back. A plaque to the memory of the people lost in both wars hangs in the Company's head office today.

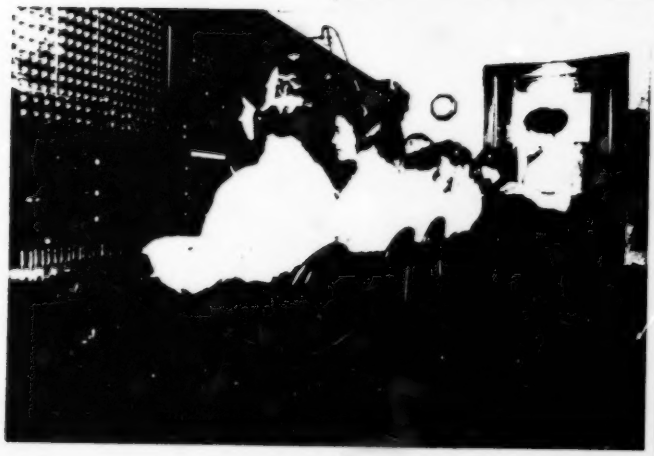
1955: A tower of strength

The post-war years were a time of phenomenal growth and expansion, and this boom was directly responsible for record levels of demand for telephone service. The Fifties also saw several advances made in telecommunication technology, which helped companies like MT&T cope with this growth.

During the 1950s, MT&T participated in the building of a second trans-Canada long distance system. This system was needed quickly as demand for telephones and telephone services began to stretch the capacity of the existing open-wire long distance network.

Telecommunications technology has changed rapidly. Shown here are a selection of telephones which were introduced between the Company's beginnings in 1910 and the war years.





Operators in MT&T's New Glasgow office, 1913.

These telephones represent a selection of the equipment used by MT&T since the war and reflect an increasing effort to serve the unique needs of business as well as residence customers.

The telephone of tomorrow: the M-3000, one of MT&T's newest product offerings, is designed for use with large systems such as the Meridian integrated voice/data office system.

MT&T leads the way

For this long distance network, a new technology was used — a war-born 'cousin' of radar called microwave radio. In fact, MT&T had already led the way by establishing Canada's first short-haul microwave system between Nova Scotia and Prince Edward Island in 1948.

By 1956, MT&T had completed its portion of the cross-Canada microwave network. When the network was finally opened in 1958, a total of 139 microwave sites began to transmit long distance calls over the vast distance between Halifax and Victoria. These strange-looking towers and antennae were not only the workhorses of modern long distance communications, they were also critical to the development of coast-to-coast television broadcasts.

1965-75: A modern network takes shape

Throughout the 1960s and 1970s, MT&T acquired virtually all of the 200 small connecting telephone companies remaining in the province.

As well, the Company focussed its efforts on improving service throughout the province. By 1976, all communities were converted to dial telephone service and direct distance dialing.

Throughout the Sixties and Seventies, MT&T also introduced service improvement programs such as Extended Area Service, which allows residents in neighbouring exchanges to carry out everyday calling needs without paying long distance charges.

MT&T also continued its efforts to reduce the number of customers served by multi party lines in the province, as well as the number of customers sharing each multi party line. Since 1966, nearly 65,000 homes and businesses have been converted to single party service. Today, fewer than 10% of MT&T's customers share a party line, with no more than four subscribers on the same line, and MT&T is steadily reducing the number of remaining multi party customers.

New technology improves service

Advances in technology continued to improve the quality and reliability of MT&T's network, with the installation of common control switching systems such as #5 Crossbar, SA1 and SP1 during the decades of the Sixties and Seventies.

In 1973, the TransCanada Telephone System introduced Dataroute, the world's first digital network for transmission of large volumes of data. This innovation was rapidly followed by the development of Datapac, a packet-switched digital network, and more recently by iNet and Envoy 100, two of the newest in a continuing line of data communications products and services.

The 1980s: A decade of change

In just seventy-five years, MT&T has moved through some dramatic changes in its business. If MT&T employees circa 1911 were able to travel through time to 1986, they would see some startling differences in the Company — as well as some reassuring similarities.

The computer, unknown in 1911, has become an integral part of MT&T's telecommunications network. Computers now perform the same function that "Central" once did, controlling much of the switching of local and long distance calls within and outside the province. The computer has also become a familiar tool which has made many office functions easier. The Company's business office and repair service bureau — functions which have been part of MT&T's operations since the early days — are now making increased use of the computer to store records, track service requests and test customers' telephone lines for performance problems.

And just imagine how much trouble someone of that era would have digesting the fact that MT&T now transmits thousands of simultaneous telephone conversations through cable made of glass fibres no thicker than a human hair.

Innovations like fibre optics continue to amaze and challenge even seasoned MT&T employees of 1986, let alone 1911. By mastering technologies such as fibre optics or cellular systems, MT&T is able to create a portfolio of telecommunications products and services that will meet the diverse and sophisticated needs of our customers, and at the same time increase the ability of employees to meet growing demand for these services more quickly and efficiently.

The spirit of service

Many of the Company's present-day operations would baffle employees of 75 years ago. And yet — employees from 1911 would still recognize the spirit of service that has characterized MT&T from the very beginning.

So while it's true that there have been many changes in MT&T during the past seventy-five years, it's also true that some things never change — like our commitment to good service. We think that Alexander Graham Bell, standing in the shadow of Beinn Bhreagh, would approve.

MT&T is carrying out a field trial of the Meridian DV-1 integrated office system in cooperation with the Management Board of the Province of Nova Scotia. MT&T Customer Service Representative Gordon Murray and IOS Portfolio Planner Tod Slaney (standing) are shown here with Darrell Hiltz, Director of Special Projects, Management Board.

MT&T Phone Centres offer a wide variety of telephones and telephone accessories for sale or rental. Phone Centre employees can also access billing information by computer.

A privilege and a responsibility

When your list of customers includes the citizens of an entire province, you feel an extra responsibility to provide good, affordable telecommunications service to customers all over Nova Scotia — whether they live along the south shore or in the northernmost tip of Cape Breton.

The many faces of our customers

MT&T's tradition of good service stems from an 'extra effort' to provide good quality communications systems for all customers' residence and business needs. It's not always a simple matter. Providing telecommunications for a small fish packing plant is a very different matter than providing service for a university or even for a medium-sized computer firm. Each has its own unique needs, and each expects MT&T to provide the products and services that best fit their function and their budget.

MT&T's marketing effort is based on careful research to determine the telecommunications needs of all these different customers, both residence and business, and then provide them with the products and services they want.

As a result, the Company is constantly enhancing and expanding existing services and products even as it brings new ones to market. But behind each product and service is a wealth of planning to make sure that MT&T offers the right products and services for our customers' unique needs.

Greater choice for customers

For seventy-five years, MT&T was the only organization in the province providing telecommunications service to all these diverse groups of Nova Scotians — a big job, but one to which it was more than equal.

In today's more competitive environment, MT&T is still the leading supplier of telephones and telephone systems to Nova Scotians.

A winning combination

In 1986, the Company tested its mettle in some pretty tough competitive situations and found that it has a winning combination of good products, good service and good people. The new competitive communications equipment marketplace has provided Nova Scotians with a greater choice than ever before of telecommunications products and services.

More than a telephone company

MT&T has responded to its customers' needs by expanding its basic business to include a complete portfolio of telecommunications services. In addition to running the province's telephone network, it has become the major supplier of a wide range of communications products and services for consumers and business customers of every description.

Consumer products

The year 1986 was the Company's first year in which it engaged in extensive retail marketing of telephones and telephone accessories for residence customers. Part of MT&T's activities included relocation of its Scotia Square Phone Centre in Halifax, the construction of a new Phone Centre in New Glasgow and creation of new product displays in all nine centres. At these centres, in addition to paying their telephone bill, customers can purchase or rent telephone service and choose from an impressive line of products and services, including answer-and-record equipment, cordless telephones and novelty telephones. In 1986, MT&T also introduced the 'Signature' programmable phone to its line of rental products. Telephone set sales in 1986 were brisk as customers responded positively to the Company's consumer-oriented approach to marketing these products.

By providing a wide variety of quality telephone products and services and promoting them through attractive retail outlets and well-timed advertising campaigns, MT&T has retained the major share of sales and rentals of consumer telephone products.

Network services

In 1986, a major sales campaign offering customers the benefits of Touch Tone service produced an overwhelming response, nearly swamping the service representatives and installers who were taking customer orders and installing the service. As a result of the Touch Tone campaign, 40.0% of the Company's telephone lines are now Touch Tone compared to 32.5% the year before, substantially increasing revenues from Touch Tone service. In 1987 the Company is targeting a further increase to 46% Touch Tone penetration.

Many residential customers in areas served by new digital switching equipment have also responded positively to the new custom calling services offered by MT&T, such as Call Forwarding, Conference Calling and Speed Calling.

These services, which are common features on equipment available to MT&T's business customers, are proving every bit as popular in the home as in the office. MT&T is offering these services to more and more residential customers as it converts additional switching offices to digital and electronic switching equipment.

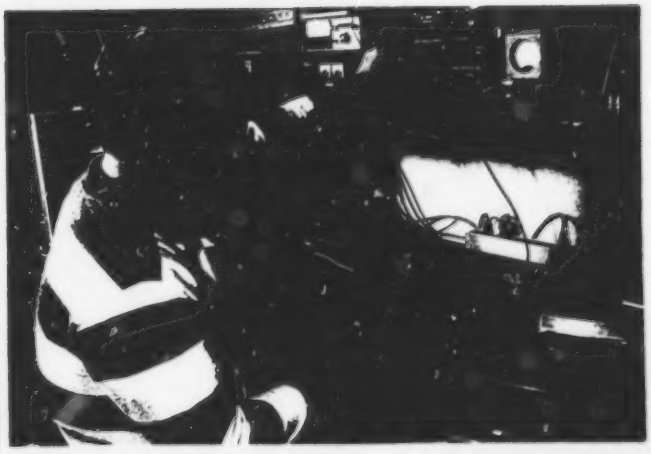
Business communications with flair

MT&T has been equally active in providing its business customers with communications products and services which are more powerful, more versatile and easier to use than ever before.

Integrated office systems

When it comes to state of the art products, MT&T is clearly in the lead with two new integrated office systems offerings, the Meridian DV-1 and integrated voice messaging.

The DV-1 integrates voice communications, office automation and data processing in a single compact unit. Designed to serve departments within large organizations, branch offices and medium-size firms, the DV-1 can support up to 48 data terminal users and an additional 52 telephones. It is also compatible with most personal computers, terminals and telephones.



PBX and Special Services Repairman Blair Furlotte at work on an Autotel unit in MT&T's mobile radio repair shop.

A multi task office system

The Meridian DV-1 integrated office system provides users with full integrated voice and data communications between co-workers. Several users can simultaneously view information on their screens, discuss the information either by voice or by electronic mail, and alter that information from their terminals.

The tremendous improvements in productivity, as well as the savings produced by the DV-1's ability to combine several office functions in one machine are rapidly making the Meridian DV-1 'the wave of the future'. Together with MT&T's LANSTAR local area network, the Company is providing business customers with versatile, powerful integrated office systems.

'At the sound of the tone . . .'

In keeping with MT&T's plans to offer its customers the most up-to-date communications systems available, during the year the Company introduced Integrated Voice Messaging Service on a trial basis. This trial was successful and the Company plans to introduce this service to business customers in 1987.

Integrated Voice Messaging Service (IVMS) is a specialized voice processing computer which works with several telephone systems to give users extensive voice mail capabilities, including the ability to create, store and distribute voice messages to other users.

The competitive edge

Competition for the business communications systems market was allowed as of June 1985, and since that time the Company has competed vigorously and successfully to retain its leadership position in this important marketplace.

A highlight of 1986 was a major sale to the Department of National Defence (DND). DND and MT&T have developed a plan to link four major locations within CFB Halifax through the installation of SL-1 digital switching systems. In 1986, the first of these proposed systems went into service at DND's Dockyard location. With a current capacity of 2800 lines, this is MT&T's largest SL-1 installation to date as well as the largest SL-1 system in the Department of National Defence.

MT&T has maintained the major market share in multi line communications systems for business customers because of its reputation for good quality and good service, its aggressive sales effort and its superior product line. Sales of multi line systems (which range in size from two-line to large systems) continued strong in 1986, with major sales made during the year to hotels, hospitals, universities and many businesses.

This line expanded in 1986 with the introduction of a number of communications systems for large and small users. In 1986, MT&T introduced the Trillium 1032 office communications system for customers with up to 10 lines and 32 telephones, and the Delphi 16, an attractive telephone terminal system for small business. Because the Delphi system is modular in nature, it can easily grow from two lines and eight sets to accommodate up to six lines and 16 telephones.

In addition, MT&T introduced several new business telephone sets in 1986, including Rapport, an enhanced guestroom telephone for hotels and motels; the Vantage Esprit, for use with the Vantage family of small-to-medium business communications systems; the Compact-8, for use with the SL-1 electronic PABX system, the CTX, for use with Centrex or SL-1 PABX systems, and the M-3000, for use with the SL-1 electronic PABX and Meridian data-voice system.

MT&T — on the move

Customers are turning in increasing numbers to all of MT&T's telecommunications services to help them use their most valuable resource — time — more effectively, and this is particularly true of MT&T's mobile communications services.

Autotel — province-wide

MT&T currently provides Autotel direct-dial mobile telephone service to Halifax-Dartmouth area customers, and this popular service will be extended to customers across the province in 1987 to replace the existing province-wide operator-controlled mobile telephone system.

As well, in 1986 MT&T announced plans to augment Autotel in the Halifax-Dartmouth metropolitan area with cellular mobile telephone service. MT&T will be the first company in Atlantic Canada to offer cellular service. In December 1986 MT&T's regulator, the Board of Commissioners of Public Utilities, heard the Company's application to offer this service, under the name Maritime Cellular, to customers beginning in early 1987. The Company is currently awaiting the Board's decision.

The cellular solution

The strongest demand for mobile telephone service is in the Halifax-Dartmouth metropolitan area. There, MT&T will augment Autotel service with cellular technology, which is specifically designed to handle a high volume of mobile telephone users.

Cellular technology also offers users of mobile and portable communications services more private conversations, improved signal quality and virtually unlimited access to the system.

Together, the expansion of Autotel and the introduction of cellular service will provide Nova Scotians with exceptionally high quality direct-dial mobile telephone service.

Paging all customers . . .
MT&T's dial paging services are also growing rapidly. The number of MT&T voice pagers in service increased by over 500 units in 1986 and continued strong growth is expected in 1987 and beyond.

The Company is continuing to expand both the range of paging products and services and the number of customers using the service. In 1986 the Company installed new switching equipment to serve the growing number of voice and tone paging customers. At the same time, the new switch will allow the Company to provide new services including digital and alphanumeric display pagers and the ability to store and retrieve messages.

In 1986, MT&T expanded its tone paging service to Liverpool, Digby, Antigonish and Port Hawkesbury and will expand the service in 1987 to Shelburne, Tusket, Windsor, Wentworth and Baddeck.

Approximately 85% of the province now has access to Tone Paging service. Voice paging, introduced in 1984, is provided to customers in the Halifax-Dartmouth and the Sydney areas.

Nova Scotia's information mover
MT&T's data communications services are one of the fastest-growing segments of MT&T's business, and in 1986 sales of services such as Dataroute, Datapac, iNet and Envoy increased by 18% over 1985.

Sales of MT&T's Envoy 100 electronic messaging service continued to soar, as this easy-to-use service, introduced just six years ago, continued to establish its position as the major Canadian electronic messaging network.

In 1986, MT&T and the other members of Telecom Canada introduced TradeRoute electronic data interchange service for buyers and sellers, and Megaplan, which provides customers with private digital transmission of voice, data and image signals over the same 1.5 megabit digital channel.

In 1987, MT&T will expand its in-province data network to several additional Nova Scotian communities, making it economical to offer the data transmission and electronic mail services which are available in larger communities to smaller Nova Scotian communities.

A guarantee of good service
The Company is well aware that the reason for the success of all of its products and services is due both to the quality and sophistication of its products and services and to the fact that behind them is a guarantee of good service. MT&T is committed to this policy of quality, reliability and good service as the cornerstone of continuing customer loyalty and growth in the business.

Our goal — satisfied customers
In 1986, the watchword for MT&T employees was 'take action for customer satisfaction'. These few words made a punchy slogan on buttons, posters and banners, because they represent a serious commitment to good service and the recognition that present and future success depends on MT&T's concern for quality.

Good service is a many-sided effort, and programs are underway to improve almost every facet of our service to customers.

During 1986 we expanded the number of technicians working on a dedicated basis on the premises of our large customers such as the hospitals, universities, the Department of National Defence and other users of large and complex telecommunications systems.

With this arrangement, our on-site technicians become familiar with their clients' particular telecommunications needs, and they can be counted on to keep their clients' extensive communications systems running smoothly.

On the technical side, the Company places special emphasis on reducing the number of trouble reports and on monitoring all service indicators to make sure that service stays at a high level.

As well, computerized testing and monitoring the performance of our customers' telephone equipment and switching systems is enhancing the Company's ability to maintain reliable, 'round-the-clock service.

Training our customers
Part of MT&T's commitment to service includes the Company's efforts to help its customers use our business communications equipment effectively.

The electronic technology on which MT&T's telecommunications products and services are based makes these systems more useful and at the same time more complex in terms of the number of new features available to clients.

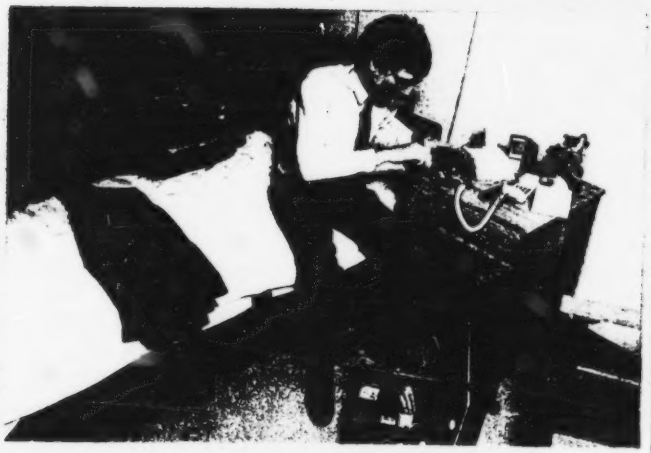
So when a client purchases an MT&T service, they may, if they wish, also receive a visit from one of our nine service advisors, who train customers in the use of their new communications system or service. To augment this training, MT&T is also developing new audio-visual training packages as an additional way to help customers who purchase its products and services to get the most out of them.

Training ourselves. . .
Customer service has many faces. It's an installer in Yarmouth . . . a sales representative visiting clients in Kentville . . . a coin collector on the road to check payphones . . . an operator in New Glasgow . . . an engineer in Sydney . . . a service representative in Truro . . . a cable repairman in Bridgewater. Over 3700 employees are on the job to make sure Nova Scotians have the high quality of telephone service they have come to take for granted.

In the course of their work, MT&T employees have at least 1.5 million contacts every year with customers. Their dedication and commitment to doing the job right must be apparent to our customers, because year after year, respondents to customer surveys rate our employees highly for their overall helpfulness and positive attitude.

In fact, these customer surveys are one way of tracking just how satisfied customers are with their service. The Company is working to make its service levels so good that a very high percentage of the customers surveyed will rate MT&T positively on its level of service.

Ron Nicholson, PBX and Special Services Repairman for Camp Hill Hospital in Halifax, with the hospital's Supervisor of Communications, Diane Smith.



Ron's job is to keep Camp Hill Hospital's communications system running smoothly. Here he adjusts a telephone set in a patient's room.

MT&T is proud of its good relationship with customers, and in order to make each contact as pleasant and productive as possible for both customers and employees, the Company introduced a new Customer Relations Training Program during 1986 and early 1987 for about 1600 employees, all of whom deal regularly with customers, in the techniques of maintaining successful customer relations.

In 1986, the Company also continued with ongoing job-specific training programs for over 150 foremen and supervisors. The Company is providing technical upgrade training for craftspeople, to better enable them to work with the advanced technology that is forming the core of the Company's network.

Good service — the bottom line

The introduction of terminal equipment competition into the telecommunications business has taught us in the last two years that one of MT&T's greatest strengths is its reputation for good service in all aspects of its operations. The Company is committed to maintaining and strengthening that reputation as the key to retaining its leadership position in the Nova Scotian telecommunications industry.

So good service really is the bottom line. It's the key to meeting the Company's responsibility to its customers to provide high quality, affordable telephone service; to its employees, for a stable working environment, and especially to shareholders, who expect MT&T to provide them with an attractive return on their investment.

Our growing business

The 1980s have been characterized by strong growth in the demand for new residence and business telephone installation, and 1986 was no exception. During the year MT&T passed an important milestone with the installation of the Company's 400,000th telephone line (network access service).

In 1986, MT&T installed 15,014 new telephone lines, bringing the total number of lines in service to 400,392. To date, the Company has 578,907 rented telephones in place.

Much of this growth has taken place in new housing developments in areas across the province, with particular strength in the Halifax-Dartmouth metropolitan area and the south-western areas of Nova Scotia.

The steady growth which took place in the business in 1986 continues an overall strong growth trend in demand for telephone service since 1984, and has resulted in a 12.2% increase in the total number of telephone lines in service during the last three years.

Thinking ahead . . .

MT&T constantly monitors growth trends in all areas of the province so it can predict what the demand for service will be in the future. This is important because the Company must plan, design and order facilities as much as three to four years before they will be installed.

The Company is aware that the kind of network it is building today will affect the kinds of services available to customers years from now. MT&T is developing a telecommunications network which will not only meet short term growth forecasts but also long term expectations for customers' future telecommunications needs.

Just doing our job . . .

All this is necessary to do our job — making service available to customers when they need it, improving existing services, and keeping the system working 365 days a year, 24 hours a day.

Technology: getting more for less

MT&T is taking advantage of new technology to meet demand for new telephone service, improve existing service — and still keep the cost of telephone service to a reasonable level.

Over the years MT&T's network has changed to accommodate many technological improvements. While this always means making a significant capital investment, the Company makes this investment only when it has determined that it is the most cost-effective means of providing high quality, reliable service.

Technology has advanced quickly in the last two decades and MT&T has taken advantage of the cost efficiencies, greater capacity and reliability which each successive generation of technology has brought to the network. This process has accelerated during the 1980s, and the Company is currently involved in major programs to introduce new digital technology to both its switching and transmission networks.

Fibre optics — a clear winner

Fibre optic cable has already begun to replace both conventional copper cable and microwave radio to carry both local and long distance calls. A single fibre is no thicker than a human hair, yet it is capable of carrying many thousands of telephone conversations. Over the long run, this helps to keep MT&T's costs down — and its customers' telephone bills at an affordable level.

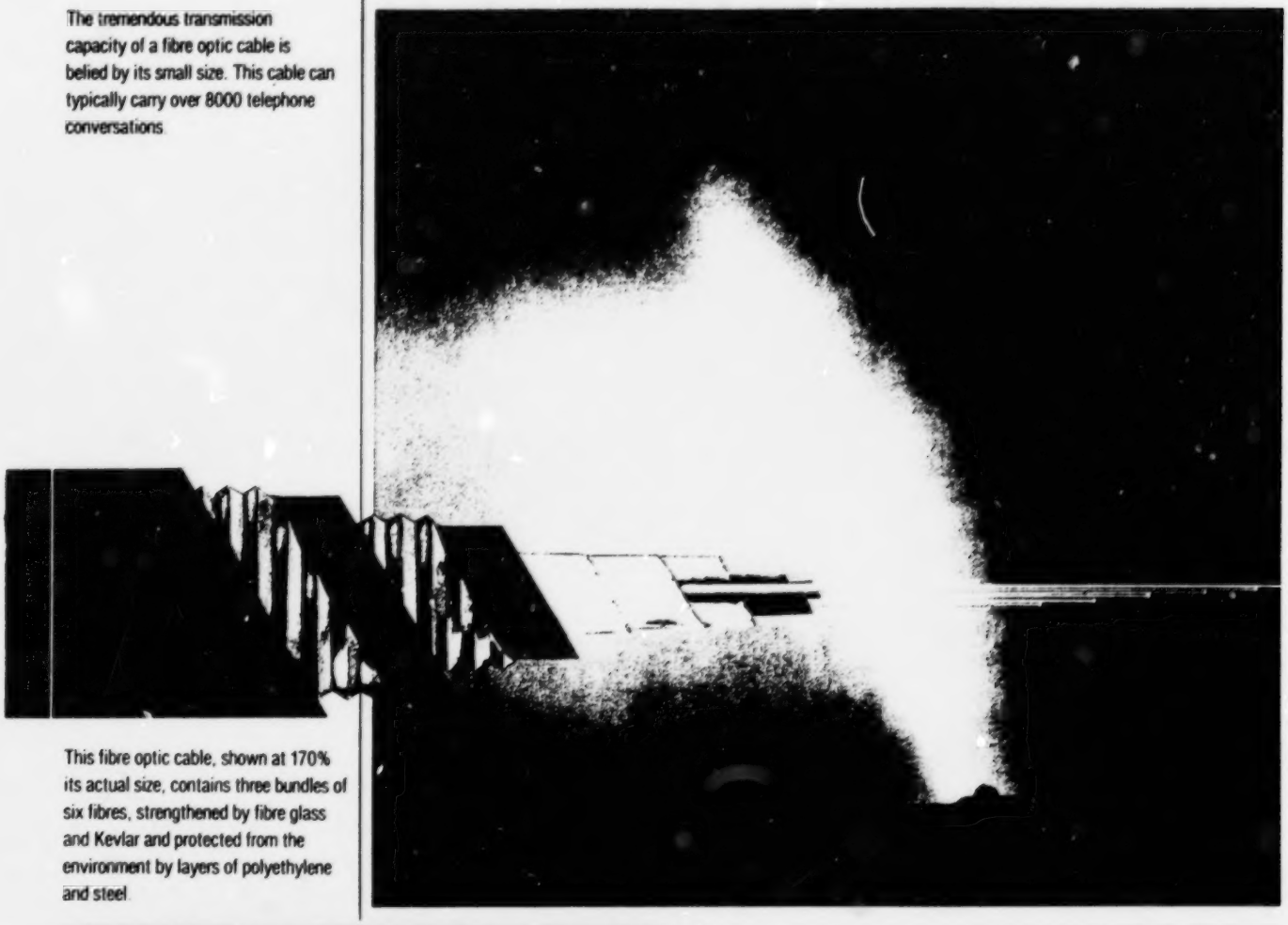
As well, the tremendous bandwidth of optical fibre makes it more economical to carry voice, data and image signals, and when used in conjunction with other technologies, such as new signalling systems, it will allow us to offer new services such as 'on-demand' private lines, credit card telephones, and videoconferencing at a reasonable cost.

Lighting the way around the province . . .

In 1986 MT&T completed a major fibre optics installation along the South Shore, which now extends from Barrington to Saulnierville. The company is also laying a fibre optic cable network around the Halifax-Bedford-Dartmouth metropolitan triangle and in a number of smaller installations around the province.

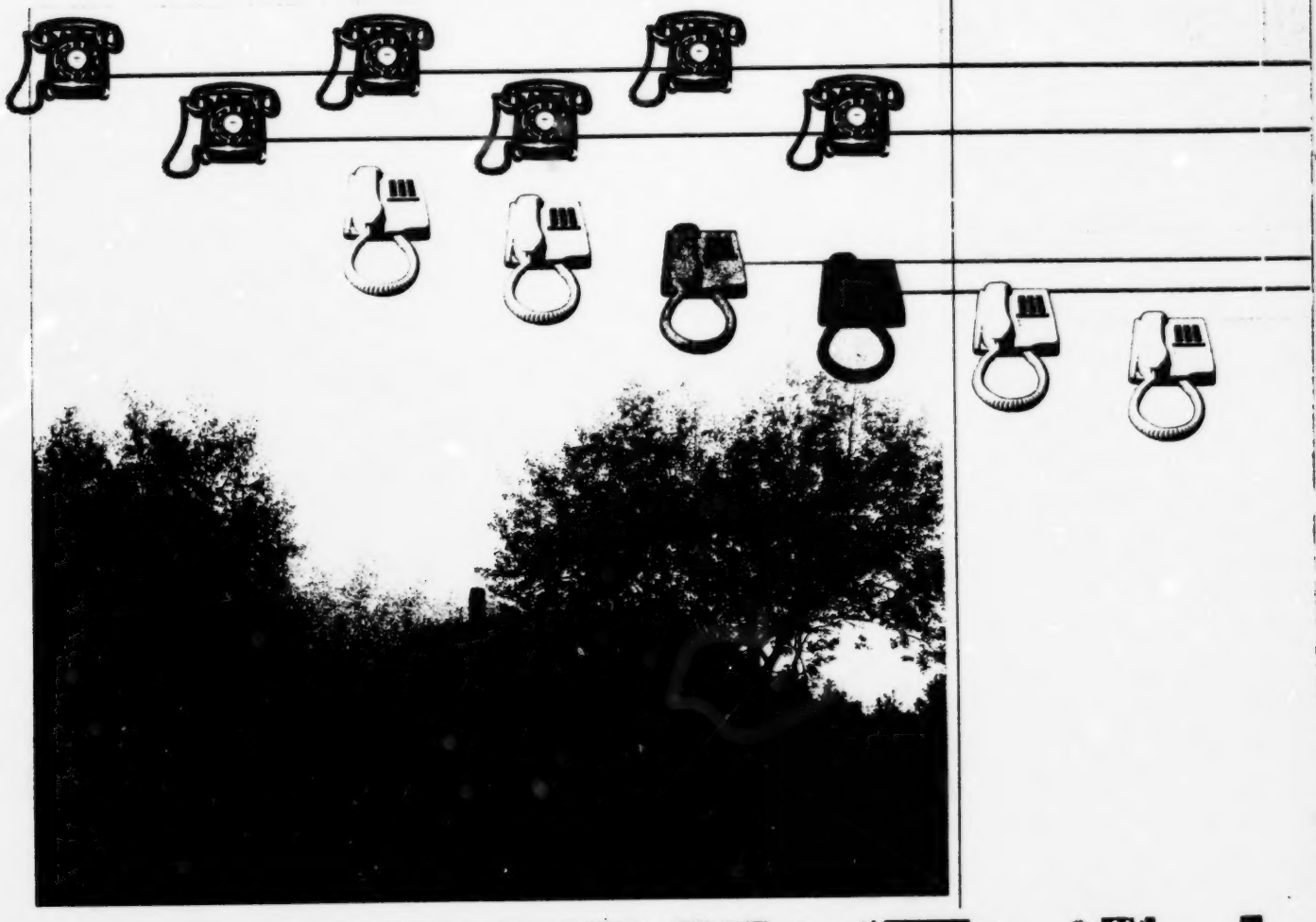
As existing transmission facilities reach capacity, MT&T can provide additional capacity by installing fibre optics systems which will serve our customers' needs for years to come.

The tremendous transmission capacity of a fibre optic cable is belied by its small size. This cable can typically carry over 8000 telephone conversations.



This fibre optic cable, shown at 170% its actual size, contains three bundles of six fibres, strengthened by fibre glass and Kevlar and protected from the environment by layers of polyethylene and steel.

MT&T's longest fibre optics system to date is being laid from Halifax to the New Brunswick border.



Loop and Station Installer Ernie Ledwidge shows Adam, Jason and their mother, Mrs. Dale Swallow, how to assemble their new red Harmony Touch Tone telephone.

A cross-Canada network

In 1986, work began on MT&T's longest fibre optics system yet, extending from Halifax through to the New Brunswick border.

MT&T will finish laying this fibre optic cable in 1987 and the system will be ready to go into service early in 1988. It will connect with a similar fibre optics network being installed in New Brunswick to form the eastern end of a cross-Canada fibre optics network, due to be completed by the end of the decade.

The digital difference

What fibre optics is doing for transmission systems, computer-controlled electronic systems are doing for the switching of telephone calls. Digital switching systems are working wonders inside MT&T's central switching offices and in both large and small customer telephone systems, replacing older electromechanical technology as the demand for service grows.

In a nutshell, digital systems can process more calls, more efficiently and more reliably, and allow the Company to offer more 'value-added' services to its customers. MT&T is already beginning to offer some of these services in areas served by digital equipment, such as Call Forwarding and Conference Calling.

Digital projects — 1986

In 1986, MT&T completed the installation of a large digital switch to meet growth requirements in the Kentville area, and work is underway on large switches to be installed in Yarmouth, Truro and Halifax (Lorne office) in 1987.

Also in 1986, MT&T installed a number of remote digital switches which connect to and draw on the capacity of a nearby large digital switch. Remote switching systems went into service in Rockingham, at Aerotech Park and the Halifax International Airport, at the Woodlawn, Dartmouth (Harbour) and Halifax (Lorne) exchanges and at the Bedford Institute of Oceanography. Others, installed during 1986, go into service in 1987 in Shelburne, Saulnierville and Mount Uniacke.

MT&T also continued its use of digital subscriber carriers to reduce the amount of cable needed to provide service to fast-growing commercial and residential areas around the province in 1986.

Also in 1986, two new digital radio systems were installed to meet growth in calling between Nova Scotia and the provinces of Newfoundland and Prince Edward Island. Additional capacity was also added on the Halifax-New Glasgow microwave route.

Another major project in 1986 was the upgrading of the microwave facilities used to carry CBC television network signals around the province, as part of the Company's contract to provide this service.

In 1986, these and many other projects added up to a $129 million capital investment in communications facilities to meet growth and expansion in MT&T's business, the largest capital construction program in the Company's history. Future plans call for an additional $270 million investment in construction programs in the 1987 and 1988 period.

Making good service better

MT&T is committed to not only providing all its customers with affordable telephone service, but also to improving the quality of their telephone service where necessary.

Running a network as large and complex as MT&T's means constantly balancing the need to improve the existing network with the equally pressing demand for new telephone service.

Every year, MT&T has steadily improved the level of service to customers all across the province in response to their increased expectations, while still keeping up with the strong growth in the business.

MT&T's goal is to provide all its customers with telephone service of a quality equal to or better than that enjoyed by residents in other parts of Canada. Specifically, the Company is currently working to provide all its customers with service improvements that include single party telephone lines, Automatic Number Identification, Extended Area Service and Zero-Plus Dialing, as well as improved service quality and reliability.

In 1986, as in previous years, MT&T made substantial progress toward its goal. The Company is particularly proud of its ability to continue its service improvement programs without imposing an overly heavy burden on all subscribers.

Extended Area Service

MT&T's Extended Area Service (EAS) program is now reaching maturity. EAS meets important economic, social and cultural needs, by allowing customers in neighbouring exchanges to make their everyday telephone calls without incurring long distance charges, although the introduction of EAS to an exchange may increase monthly exchange rates.

In 1986, MT&T completed nine EAS routes, offering this service improvement to customers in 14 exchanges in the Cape Breton, Truro and Windsor areas. In 1987, 11 routes will be completed, providing EAS to customers in 16 exchanges.

Single party conversion program

As is the case for other Canadian telephone companies, one of MT&T's challenges is to meet the demand of multi party customers in Nova Scotia for single party telephone service.

Currently about 37,000 (or 9.5%) of all MT&T customers share their telephone line with up to three other subscribers. MT&T plans to reduce the number of customers served by multi party lines to about 26,000 by the end of 1988.

Between 1984 and 1988, MT&T has committed $25 million to convert one-third of all multi party customers to single party service, and the Company is currently developing plans for further multi party conversions beyond 1988.

In 1986 customers in 19 exchanges benefitted from base rate area enlargements, which expands the area in an exchange within which customers can obtain single party service without monthly mileage charges. MT&T plans to extend single party service to customers in another 28 exchanges in 1987.

Automatic Number Identification
MT&T's Automatic Number Identification (ANI) program eliminates the need for an operator to request billing information every time a customer makes a long distance call.

In 1986, customers in 15 exchanges received Automatic Number Identification, bringing the total number of customers with ANI to 96.4%. In 1987 another 15 exchanges will be converted. By the end of 1987, only 25 of a total of 149 exchanges will be left to convert to ANI service. MT&T plans to complete the last ANI conversion in 1990.

'Zero-Plus' program near completion
MT&T's Zero-Plus dialing program, first introduced to Halifax, Dartmouth and Truro area customers in 1982, will be completed in 1987. This program enables customers to dial their own overseas, collect, person-to-person and paystation long distance calls.

In 1986, Yarmouth area customers received these extended direct distance dialing (EDDD) services. The EDDD 'Zero Plus' program will be complete and available province-wide when Amherst and New Glasgow area customers receive the service in 1987, providing all Nova Scotians with more efficient and convenient long distance service.

These service improvement programs and others are undertaken because they represent the level of services that customers want. MT&T is committed to further develop its business by meeting its customers' growing demand for a variety of telecommunications products and services.

Working smarter for better service
In its efforts to control costs and to provide the very best service possible, the Company is always looking for ways to run its diverse operations more efficiently.

MT&T is using all the tools at its disposal to help employees improve their effectiveness on the job. In 1986, MT&T continued its policy of automating wherever the computer makes it possible for employees to do the job better and faster.

Computers in the business office . . .
In 1986, MT&T completed the first phase of an extensive program to introduce computers to our business offices throughout the province. With the new system, service representatives can access a customer's records, key in any new service orders and check on the status of a customer's account or work order.

This new system provides a significant improvement in our business office employees' ability to process and distribute service orders quickly and efficiently. MT&T plans to complete all phases of this $3 million project by 1988.

Computers in our repair bureaus . . .
A similar project is underway in the Company's repair service bureaus. In 1986, MT&T completed the computerization of its repair bureau in Halifax, and will convert other repair bureaus throughout the province over the next few years.

Employees working in these repair service bureaus can now access customer facility records and repair information at the touch of a button; test the line for problems as they talk with the customer; schedule appointments for repair calls; and analyze trouble patterns. In addition, the system can be programmed to automatically test lines for potential problems during the night.

Both employees and customers are benefitting from this new system. Employees are now working in a quieter, more attractive environment and are able to handle customers' repair problems with greater ease and efficiency.

Computers throughout the Company . . .
While MT&T offices are by no means paperless, the computer is finding more and more application in the Company's efforts to run its large, complex organization more effectively.

Centralized customer records and billing, computerized fleet management, and word processing capabilities are already well entrenched in the Company, and the computer is being used more and more for many other functions as well.

For example, engineering staff use computer-aided design to prepare detailed equipment configuration drawings. MT&T's marketing staff store client contracts on computer, and the system will handle billing of business customers as well. Computers are used to design and store advertisements for the Yellow Pages. MT&T's business and residence service managers are also using a computer system to help them match the installation workload to the available workforce, and to track the workload from receipt of their service order until the job is completed.

Through MT&T's computer information centre, employees are learning to make effective use of microcomputers for everything from market forecasting to budget preparation.

Employees make the difference
MT&T's productivity goals are being met not only by computerization, but also through a concerted effort by all employees to find ways to do their work more efficiently.

MT&T's productivity specialists are working with employees around the province, using quality circle programs and planning sessions to identify areas for improvement, put the solutions in place and generally find ways to improve the efficiency of corporate operations.

It all adds up to — SERVICE
MT&T runs its business with three equally important goals in mind; to provide its customers with good quality, affordable and appropriate telecommunications service; to assure shareholders of a good return on their investment; and to provide employees with a stable, challenging and safe work environment.

By careful management of corporate resources and financial navigation, the Company can meet its commitment to provide new services, improve existing services and increase operating efficiency.

In seventy-five years, MT&T's people and its network have changed but these fundamental goals have not, and with them in mind we look forward to even greater achievements in 1987 and beyond.

Installation Supervisor Linda Pirard and Les Christie, Control Centre Foreman, use MT&T's new computerized service order system to check on the progress of a customer's order.

MT&T employees work as a team to find ways to perform their function more effectively. Left to right; Karen Nauffts, Harry Fraser, Helen Barrie and Jim Colford.

As the major private employer and supplier of telecommunications services in Nova Scotia, MT&T has a strong presence in all areas of the province. The Company's blue-green vans are a familiar sight as we go about the business of providing a vital service to Nova Scotians.

MT&T's responsibility to Nova Scotians

Because MT&T derives its living from communities all over the province, we feel a responsibility to contribute to the quality of life of these communities and their citizens.

MT&T helping Nova Scotians

As a corporate citizen, MT&T serves Nova Scotians by contributing to education, health and welfare, arts and culture, civic and community life in this province.

The Company manages its corporate donations program to ensure that Nova Scotians receive the maximum benefit from its contributions in all these areas. MT&T contributes to organizations which have the general respect and support of the public and whose activities benefit a broad cross-section of Nova Scotians, and the Company particularly emphasizes programs for young people.

Support takes many forms

MT&T's contribution is not always monetary. Occasionally it takes the form of donated used equipment, furniture and vehicles and employees' time and services.

The Company also supports many organizations by including articles in its monthly customer newsletter, Exchange, which is sent to virtually all Nova Scotian homes. Through these articles, we help provide information to customers on subjects ranging from child abuse to information on the 1986 Census of Population.

MT&T also pitched in to help promote the Jeux Canada Winter Games, held in Cape Breton in February 1987, through the use of its 1986 directory cover, which depicts the location of the Games. As well, MT&T distributed ticket order forms through its Phone Centres and business offices around the province. Many MT&T employees volunteered their time to help with various Games committees and functions.

In 1986, the Company fulfilled many requests for contributions to community life. As in the past, the Company contributed to a broad range of organizations, including university financial campaigns; volunteer fire departments; community cultural events; and United Way organizations throughout the province, to name a few. MT&T places special emphasis on assisting youth-oriented organizations such as the Nova Scotia Youth Orchestra, which, with MT&T's support is able to give a concert each year in a rural area of Nova Scotia; the Halifax Children's Aid Society; Junior Achievement; and YM/YWCAs in communities around the province.

Assets to their community

A very significant contribution to our communities is made by employees' participation in a wide range of volunteer activities.

MT&T employees are an exceptionally civic-minded, conscientious group of people who are assets not only to the Company but also to their communities.

One of the greatest gifts which our employees give is their time, and year after year they willingly donate their free time to volunteer activities.

MT&T employees can be found coaching minor sports . . leading a Brownie pack . . advising young entrepreneurs in Junior Achievement . . canvassing for the United Way . . or minding telephones at annual fundraising telethons for causes such as the Christmas Daddies or The Izaak Walton Killam Hospital for Children.

The 'spirit of service' at work

The 'spirit of service' for which telephone employees are so famous extends far beyond the workplace. For so many employees, it's a way of life, and the Company supports and encourages their participation in volunteer projects in every way it can. MT&T employees have been given time off to serve in various civic positions, and occasionally the Company 'loans' the time and services of some employees to a worthy cause.

In addition, MT&T also provides a 'matching donations' program in which the Company matches the monetary contribution of employees to selected non-profit organizations.

Pioneering our services

MT&T employees are also doing outstanding work through their membership in the Telephone Pioneers of America, an international service organization of present and former telephone company employees with over 18 years of service.

Pioneers from MT&T this year marked not only the Company's 75th year of providing telephone service to Nova Scotians but also the 75th year of service through Pioneering.

On a voluntary basis, the Pioneers use their unique electronics and telecommunications skills to help others in a variety of ways. Some of their programs in 1986 included providing 'audio loops' in public places such as churches and the provincial legislature to make it easier for hearing-aid wearers to listen to speakers; lending special 'talking' toys to help disabled children, and donating hand-operated tricycles to children suffering from Spina Bifida.

Chapter of the Year

It was projects like these that made Acadia Chapter 49, which includes Pioneers from MT&T, Newfoundland Telephone and Island Tel, the 'Chapter of the Year', selected from 99 chapters across Canada and the United States.

Giving of ourselves

Through all these programs, MT&T and its employees are carrying the same tradition of service that has been part of the business for 75 years into the communities we serve, for their benefit and ours.

With MT&T's support, the Young Neptune Theatre Company travelled around the province this year giving performances to school audiences. Left to right: Martin Surette, Robin Mossley, Gisele Noftle and Bayle Gorman.

MT&T head office employees answered and won a challenge by New Brunswick Telephone Company to beat their participation in the annual Fitness Challenge rivalry between Halifax and Saint John, N.B.

D Andrew Eisenhauer

R Douglas Sloane

John J MacDonald

F Thomas Stanfield

Sidney A Reeves

J Stuart Spalding

Howard B Fuller

George C Piercey, QC

J William E Mingo, QC

John L Bragg

Donald C R Sobey

Seymour W Kenney

Dr. Catherine T Wallace

Ivan E H Duvar

Not present: Derek Oland

Donald F Farmer

Glen H Geldert

David S Inkpen

Colin Latham

Directors

John L Bragg
President
Oxford Frozen Foods Limited
Oxford

Ivan E H Duvar[b]
President and Chief Executive Officer
Maritime Telegraph and Telephone Company, Limited
Halifax

D Andrew Eisenhauer[a]
Chairman of the Board
ABCO Industries Limited
Lunenburg

Howard B Fuller
President
Evangeline Farms Limited
Wolfville

Seymour W Kenney[b]
President
BaKen Realty Limited
Yarmouth

John J MacDonald[a]
Executive Vice President
St. Francis Xavier University
Antigonish

J William E Mingo, QC
Partner
Stewart, MacKeen & Covert
Halifax

Derek Oland
President and Chief Operating Officer
Moosehead Breweries
Dartmouth

George C Piercey, QC[a]
President and Managing Director
Piercey Investors Limited
Halifax

Sidney A Reeves[b]
Chairman of the Board
Maritime Builders Limited
Sydney

R Douglas Sloane[b]
Executive Vice President
Bell Canada
Toronto

Donald C R Sobey[b]
Chairman of the Board
Empire Company Limited
Stellarton

J Stuart Spalding
Executive Vice President, Finance
Bell Canada Enterprises Inc
Montreal

F Thomas Stanfield[b]
President
Stanfield's Limited
Truro

Catherine T Wallace
Director
Canadian Imperial Bank of Commerce
Toronto

Officers

Donald C R Sobey
Chairman of the Board

Ivan E H Duvar
President and Chief Executive Officer

Donald F Farmer
Vice President
Corporate Development

Glen H Geldert
Vice President
Operations

David S Inkpen
Vice President
Finance

Colin Latham
Vice President
Marketing

A Douglas Hartt
Secretary-Treasurer

Roy A Teal
Comptroller

Stephen B Barry
Assistant Secretary

Operations

William J Chabassol
General Manager
Business Services

Philip G Henderson
General Manager
Planning

Herbert C (Bud) Kingsbury
General Manager
Corporate Services

Gordon H Lummis
General Manager
Public Affairs

M John McGrath
Chief Engineer

Fred D Morash
General Manager
Operations Support

Paul D Murphy
General Manager
Operations

Donald B Quinn
General Manager
Internal Audits and Security

James D Sullivan
General Manager
Market Development

[a] Audit Committee Member
[b] Human Resource Committee Member

A Billion-Dollar Investment in Nova Scotia
In 1986, MT&T joined a select group of Canadian companies with $1 billion dollars or more in plant and property, as the Company's total investment in telecommunications plant increased from $924 million in 1985 to $1 billion in 1986.

The Company's overall financial goals are to compare favourably to other Canadian companies of similar size and type in terms of return on common equity, growth in earnings per share and book value, and to maintain its high quality bond rating.

MT&T has an excellent record of balancing corporate capital programs, sales and operating expenses with external economic conditions, financial markets and regulatory direction. Through careful management and monitoring of all these factors, the Company will continue to achieve a level of earnings that will attract and keep both debt and equity investors.

Growth
In 1986, the Nova Scotian economy slowed somewhat as compared to previous years. Final figures for growth in gross domestic product are expected to be 2%-2.5% in 1986, reflecting continued expansion and diversity in the provincial economy. A decline in offshore oil exploration was offset by strength in the more traditional fishing and forestry sectors. A steady construction industry, with housing starts continuing the high growth rate of 1985, contributed to demand for telephone service in 1986. That demand led to the installation of 3.9% more telephone lines by the end of 1986, and an increase in exchange service revenue of 6.5% to $124 million. Long distance calls increased 7.1% in 1986 with revenue increasing 10.6% to $189 million.

Operating Revenues and Expenses
In 1986, operating revenues totalled $336.4 million, an increase of 8.5% over the 1985 total of $310.2 million. Operating expenses were $234.6 million in 1986, compared to $217.4 million in 1985, an increase of 7.9%. Interest expense this year was $34.7 million compared to $30.9 million in 1985.

In 1986, income before taxes was $70.9 million, compared to $66.5 million in 1985, and income taxes increased 10.5% to $36.8 million. As reported in the first quarter of 1986, an extraordinary gain of $1.5 million arising from a prior year's tax loss of a subsidiary made net income $35.6 million for 1986 compared to $34.1 million for 1985. After payment of $2.1 million in preferred share dividends, net income applicable to common shares was $33.5 million compared to $31.2 million in 1985, an increase of $2.3 million or 7.3%.

Earnings
Earnings were $1.54 per average common share. Before the abovementioned extraordinary gain, earnings were $1.47. The average number of outstanding common shares increased 933,000 shares or 4.5% to 21.8 million shares. 1985 earnings were $1.50 on 20.9 million common shares.

In 1986 $20.5 million was paid in common share dividends and the remaining $13.0 million was retained and reinvested in telecommunications equipment.

Dividends declared per common share for the year were $.94 compared to $.92 in 1985. Quarterly dividends paid on MT&T common shares were increased in 1986 from 23 cents to 24 cents effective October 15. Equity per common share was $11.59 at the end of 1986.

The return on average invested capital was 12.4% this year compared to 12.7% in 1985, and the rate of return on average common equity was 13.8% in 1986 compared to 14.4% in 1985. The reduction in returns reflects the 7.3% growth in net income available to common shareholders and a 12.1% increase in average common equity. In an economic environment characterized by declining costs of capital, the Company expects its 1986 return on investment to be similar to those earned by other companies in the industry.

Capital Programs 1986-1988

Capital construction expenditures in 1986 increased 13.2% over 1985, from $114.0 million in 1985 to $129.0 million in 1986. This reflects the Company's ongoing commitment to meet steady growth in demand for new telephone service, improve existing service and introduce new services as well. The increased level of capital expenditures and the trend toward more rapid depreciation of assets resulted in an increase in depreciation expense of 19.6% in 1986.

In 1987, MT&T plans to invest $135 million in construction programs to meet demand for growth and expansion of its services. From 1986 until 1988, MT&T will spend a total of $400 million to accommodate the demand and to maintain and improve the quality of telecommunications service for Nova Scotians.

Financing and Capital Structure

MT&T finances its capital expenditures through both internal and external sources. In 1986 the Company raised $14.7 million in common equity through its Dividend Reinvestment and Employee Stock Savings Plans. In June 1986, MT&T sold to its underwriters a public issue of first mortgage bonds totalling $50 million. The Series AC bonds have a 10.25% coupon, a 20-year term and mature August 1, 2006. This financing was used to retire the 16½% Series Y first mortgage bonds, to purchase all of the outstanding 9.40% preferred shares and to provide additional working capital.

MT&T's goal is to maintain a common equity ratio between 40 and 50% to ensure that the Company retains its financial integrity as it proceeds with capital expansion and modernization programs.

At the end of 1986, MT&T total common and preferred shareholders' equity was $285.3 million compared to $267.5 million one year earlier. MT&T's total capital is now composed of 43.2% common equity, 52.6% debt and 4.2% preferred equity.

Investments

MT&T is the largest shareholder in The Island Telephone Company Limited, the telecommunications utility in the province of Prince Edward Island. Island Tel has an installed base of 54,678 telephone lines in service and in 1986 had total operating revenues of $35.9 million.

The Company now owns 38.1% of Island Tel, compared to 37.2% in 1985. This increase is due to the purchase of an additional 32,665 shares through MT&T's participation in Island Tel's Dividend Reinvestment Plan. In 1986, Island Tel earned a rate of return on average common equity of 14.2%, contributing $1.7 million to MT&T's earnings.

ForceTen Enterprises Limited, the Company's computer software subsidiary, reassessed its market opportunities in 1986. A major restructuring of the business was carried out during the year, the costs of which were expensed as incurred. After a tax reorganization, MT&T recognized a loss of $2.5 million and now owns 94.1% of ForceTen. In December, ForceTen sold the time-sharing sales and service portion of the business to Brant Computer Services Limited of Ontario for a minority equity position in that company. ForceTen is continuing its restructuring and is expected to substantially reduce operating losses in 1987 and to eliminate all unprofitable activities by year-end.

MT&T, together with the other major telecommunications companies in Canada and the federal government, owns Telesat Canada, the country's provider of satellite services. The Company owns 1.2% of Telesat shares, and during 1986 received $37,000 in dividends from this investment.

Management's Responsibility for Financial Statements

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. The statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company has a system of internal accounting controls designed to provide reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded, and that reliable financial records are maintained.

Clarkson Gordon, Chartered Accountants, the external auditors appointed by the shareholders, are engaged to provide an independent audit of the consolidated financial statements. Their report is set out to the right.

The Audit Committee of the Board of Directors, comprised entirely of outside Directors, meets periodically with management, the internal auditors and the external auditors to discuss audit and financial matters. In addition, this committee reviews the annual financial statements of the Company and submits its report to the Board of Directors. The financial statements are submitted to the Board for approval.

David S. Inkpen
Vice President Finance

Auditors' Report

To The Shareholders of Maritime Telegraph and Telephone Company, Limited

We have examined the consolidated financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1986 and the consolidated statements of income, retained earnings and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in accounting practices as explained in Note 2 to the consolidated financial statements, with which we concur, on a basis consistent with that of the preceding year.

Chartered Accountants
Halifax, Canada
January 30, 1987

Consolidated **Income** Statement

For the year ended December 31
In thousands of dollars

	1986	1985
Revenues		
Local service	$ 123 983	$ 116 402
Long distance service	189 256	171 112
Other, net of uncollectible revenue	23 177	22 643
	336 416	310 157
Expenses		
Depreciation	65 270	54 589
Operating including maintenance	92 196	89 677
General and administrative	66 230	61 747
Pensions and benefits	10 950	11 372
	234 646	217 385
	101 770	92 772
Other Income		
Allowance for funds used during construction	2 170	1 605
Other *(Note 3)*	1 719	2 979
	105 659	97 356
Interest and Other Debt Expenses *(Note 4)*	34 746	30 856
	70 913	66 500
Income Taxes *(Note 5)*	36 801	33 300
	34 112	33 200
Minority Interest in Net Loss of Subsidiary Company	23	899
Income Before Extraordinary Item	34 135	34 099
Extraordinary item *(Note 6)*	1 511	—
Net Income	35 646	34 099
Preferred dividends	2 124	2 869
Net Income Applicable to Common Shares	$ 33 522	$ 31 230
Earnings per Common Share		
Before extraordinary item	$ 1.47	$ 1.50
After extraordinary item	$ 1.54	$ 1.50

See accompanying notes.

Consolidated **Retained Earnings** Statement

For the year ended December 31
In thousands of dollars

	1986	1985
Balance at Beginning of Year	$ 114 882	$ 102 836
Additions		
Net income	35 646	34 099
Contributed surplus on preferred shares purchased for cancellation	5	65
Other	40	17
	35 691	34 181
Deductions		
Preferred dividends	2 124	2 869
Common dividends	20 525	19 214
Capital stock expenses	20	52
Premium on preferred shares purchased for cancellation	518	—
	23 187	22 135
Balance at End of Year	$ 127 386	$ 114 882

See accompanying notes.

Consolidated
Financial Position
Statement

As at December 31
In thousands of dollars

Assets	1986	1985
Telecommunications Property		
Buildings, equipment and facilities in service	$ 961 504	$ 884 640
Less accumulated depreciation	341 787	307 890
	619 717	576 750
Land, and property under construction	46 307	30 094
Construction materials inventory	8 781	9 356
	674 805	616 200
Investments *(Note 7)*		
Investment in affiliated company	12 109	10 313
Other investments	1 887	1 091
Long-term leases receivable	5 878	1 239
	19 874	12 643
Current Assets		
Cash	839	839
Temporary cash investments	—	6 218
Accounts receivable	52 616	50 412
Current leases receivable	1 262	310
Prepayments	8 745	6 072
	63 462	63 851
Deferred Charges		
Unamortized long-term debt expenses	3 268	3 078
Other deferred charges (at cost)	2 679	2 024
	5 947	5 102
	$ 764 088	$ 697 796

Liabilities and Shareholders' Equity		
Shareholders' Equity		
Common stock *(Note 8)*	$ 93 948	$ 79 200
Premium on common stock *(Note 9)*	38 639	38 639
Retained earnings	127 386	114 882
	259 973	232 721
Preferred stock *(Note 8)*	25 320	34 776
	285 293	267 497
Long-Term Debt *(Note 10)*	290 364	250 364
Current Liabilities		
Accounts payable	25 969	24 066
Income taxes payable	1 571	208
Interest accrued	5 987	5 924
Dividends payable	5 784	5 555
Debt due within one year *(Note 11)*	26 816	32 873
Other current liabilities	9 780	7 310
	75 907	75 936
Deferred Credits		
Income taxes	112 412	103 952
Other deferred credits	112	47
	112 524	103 999
Commitments *(Note 13)*		
	$ 764 088	$ 697 796

See accompanying notes.

On behalf of the Board

Ivan E. H. Duvar
Director

Donald C. R. Sobey
Director

Consolidated **Cash Flow** Statement

For the year ended December 31
In thousands of dollars

	1986	1985
Operating Activities		
Income before extraordinary item	$ 34 135	$ 34 099
Deduct investment income	(2 319)	(1 582)
Non-cash items		
Depreciation	65 270	54 589
Deferred income taxes	8 460	6 145
Allowance for funds used during construction	(2 170)	(1 605)
Amortization of long-term debt expenses	463	466
(Increase) decrease in long-term leases receivable	(4 639)	(1 239)
Other, net	95	174
Change in operating working capital *(Note 14)*	(30)	1 595
Extraordinary item	1 511	—
Cash Provided by Operating Activities	100 776	92 642
Financing Activities		
Common shareholder dividend reinvestment plan	8 812	4 836
Employees' stock savings plan	5 936	5 611
Dividends	(22 649)	(22 083)
Preferred shares purchased for cancellation	(9 967)	(1 206)
Increase in bank and other notes	13 943	2 025
Long-term debt	50 000	40 000
Repayment of long-term debt	(30 000)	(7 000)
Other, net	(380)	(317)
Cash Provided by (Used in) Financing Activities	15 695	21 866
Investing Activities		
Construction program expenditures	129 040	114 000
Increase (decrease) in construction materials inventory	(575)	372
Deduct charges not requiring cash outlay	(5 088)	(5 767)
Cash used for construction	123 377	108 605
Investment in affiliated company	941	226
Dividend income	(978)	(923)
Other, net	(651)	160
Cash Used in Investing Activities	122 689	108 068
Increase (Decrease) in Cash and Temporary Cash Investments	(6 218)	6 440
Balance at Beginning of Year	7 057	617
Balance at End of Year	$ 839	$ 7 057

See accompanying notes.

Notes to
Consolidated
Financial
Statements

1. Summary of Significant Accounting Policies

a) System of accounts:
The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

b) Consolidation:
The accompanying financial statements consolidate the accounts of the Company and its majority-owned subsidiary, ForceTen Enterprises Limited.

c) Investment in affiliated company:
The investment in The Island Telephone Company Limited is accounted for by the equity method, whereby the investment is carried at its cost plus the Company's share of retained earnings since acquisition.

d) Telecommunications property:
Telecommunications property is recorded at cost.

Construction materials inventory consists of items which will be used in the construction program.

Depreciation is charged on a straight-line basis using rates for classes of property, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciation of the assets over their estimated service lives and resulted in an average rate of 7.3% for 1986 (1985, 6.6%).

e) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences. Income tax expense is based on income reported in the Income Statement. The Company defers the payment of a portion of the income tax expense in arriving at taxable income by deducting certain expenses in amounts greater than are charged in the Income Statement. Taxes deferred in this manner appear in the Financial Position Statement as a deferred credit.

f) Allowance for funds used during construction:
The Company is allowed a return on capital invested in new telecommunications property while under construction by including an "allowance for funds used during construction" as an addition to the cost of the property constructed. The allowance is calculated using a rate based on the cost of equity and the after tax cost of debt.

g) Unamortized long-term debt expenses:
Unamortized long-term debt expenses are being amortized on a straight-line basis over the duration of the various debt issues.

h) Earnings per common share:
Earnings per common share are computed based on the average of the average number of shares outstanding each month during the year.

i) Leases:
Revenues from operating leases are accounted for at the time the services are provided to customers. In the case of sales-type leases, the gain realized on the sale of the product is recorded at the effective date of the lease. Finance income related to sales-type leases is recognized so as to produce a constant rate of return on the residual investment in leases.

2. Accounting Refinements

In 1986 the Company made further changes in the application of accounting principles to bring its accounting practices more in line with other industries. Certain costs that were capitalized in prior years and recovered through depreciation are now being expensed directly, resulting in an additional charge to expense of approximately $2 800 000 in 1986. These revisions were approved on June 26, 1985 by the Board of Commissioners of Public Utilities for the Province of Nova Scotia to be effective January 1, 1986.

3. Other Income

Consists principally of the Company's share of The Island Telephone Company Limited net income of $1 729 000 (1985, $1 545 000) which includes dividends received amounting to $941 000 (1985, $886 000).

4. Interest and Other Debt Expenses

	1986	1985
Interest on long-term debt	$ 32 805 000	$ 28 526 000
Amortization of long-term debt expenses	463 000	466 000
Interest on bank and other	1 109 000	1 505 000
Interest on deposits held	369 000	359 000
	$ 34 746 000	$ 30 856 000

5. Income Taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1986	1985
Combined basic federal and provincial income tax rate	52.8 %	51.9 %
Allowance for funds used during construction, net of applicable depreciation adjustment	(0.7)	(0.4)
Dividend and equity income	(1.3)	(1.2)
Subsidiary's unutilized tax losses	0.4	0.2
Other	0.7	(0.4)
Effective income tax rate	51.9 %	50.1 %

6. Extraordinary Item

The extraordinary item arises as a result of the reduction of income taxes upon the utilization of a prior year's tax loss of the Company's subsidiary.

7. Investments

Investment in affiliated company consists of shares in The Island Telephone Company Limited. At December 31, 1986 the Company's ownership interest in The Island Telephone Company Limited was 38.1% (1985, 37.2%). Other investments consist principally of shares in Brant Computer Services Limited recorded at a cost of $1 044 000 and Telesat Canada at a cost of $738 000.

8. Capital Stock

Authorized:

The authorized share capital of the Company consists of 2 532 014 shares of $10 par value and 29 976 381 shares without par value. All of the shares of $10 par value are issued and outstanding preferred shares.

As confirmed by order of the Supreme Court of Nova Scotia, the Company's authorized share capital as at December 31, 1986 was reduced by 945 563 shares of $10 par value as a result of the purchase and cancellation of redeemable preferred shares during the year.

Common Shares:

Shares outstanding at January 1, 1986	**21 443 381**
Issued for cash	**992 894**
Shares outstanding at December 31, 1986	**22 436 275**

The Company has a Common Shareholder Dividend Reinvestment Plan whereby holders of common shares have the option to acquire additional common shares at a discount of 5% of market price through the reinvestment of dividends. Participants may also purchase, to a maximum of $3 000 per quarter, additional common shares at market price. For the year 1986, the Company reserved 750 000 shares and during the year issued 613 948 shares for $8 812 000 under the terms and conditions of the Plan.

For the year 1986, the Company reserved 500 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 378 946 shares for $5 936 000 to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to market price.

By amendment to the Company's Act of Incorporation in 1966 any shareholder or group of associated shareholders owning 1 000 or more voting shares (common or 7% cumulative voting preferred) is limited to 1 000 votes at any meeting of the shareholders.

Preferred Shares:

	Shares Outstanding at Jan. 1, 1986	Redemptions and Purchases of Preferred Shares For Cancellation	Shares Outstanding at Dec. 31, 1986
7.00%	150 000	—	**150 000**
7.10%	641 264	12 325	**628 939**
7.65%	1 183 475	40 400	**1 143 075**
8.60%	640 000	30 000	**610 000**
9.40%	862 838	862 838	—
	3 477 577	945 563	**2 532 014**

All series have a $10 par value.

The 7.00% cumulative preferred carry one vote per share and are non-redeemable.

All series (7.10%, 7.65%, 8.60%) of cumulative, redeemable preferred shares are non-voting unless six quarterly dividends are in arrears. The other provisions attached to each series are:

7.10% — The Company shall attempt to purchase for cancellation 22 500 shares at or below par value in each calendar year. The Company may redeem all or part of the outstanding shares at a premium of $0.30 per share until April 15, 1987 after which time the premium decreases $0.10 until April 15, 1990 and thereafter the shares may be redeemed at $10.10.

7.65% — The Company shall attempt to purchase for cancellation 45 000 shares at or below par value in each calendar year. The Company may redeem all or part of the outstanding shares at a premium of $0.30 per share until August 22, 1987 after which time the premium decreases $0.075 every year until August 22, 1990 and thereafter the shares may be redeemed at $10.00.

8.60% — The Company shall retire 30 000 shares by May 28 of each year, either by calling for redemption at par value or by purchasing for cancellation at a price not exceeding the price at which such shares are otherwise redeemable. The Company may redeem all or part of the outstanding shares at a premium of $0.50 per share until May 28, 1988 after which time the premium decreases $0.10 every three years until May 28, 1997 and thereafter the shares may be redeemed at $10.10.

9.40% — The Company redeemed effective March 17, 1986 all of the outstanding shares. The redemption price was $10.60 together with accrued dividends to the redemption date.

9. Premium on Common Stock

	1986	1985
Beginning of year	**$ 38 639 000**	$ 38 320 000
On shares issued during year	**—**	319 000
End of year	**$ 38 639 000**	$ 38 639 000

The full amount of the consideration received from common shares issued since April 15, 1985 is added to the Common Stock account.

10. Long-Term Debt

Series	Rate	Maturing	1986 Principal	1985 Principal
N	6½%	March 15, 1987	$ —	$ 10 000 000
Q	9¼%	June 1, 1990	1 364 000	1 364 000
R	8⅜%	May 1, 1991	12 000 000	12 000 000
Z*	15¾%	May 15, 1992	30 000 000	30 000 000
T	8¼%	December 15, 1993	20 000 000	20 000 000
S	8⅝%	August 1, 1994	12 000 000	12 000 000
AA	13¼%	October 15, 1994	30 000 000	30 000 000
U	10¾%	November 1, 1995	20 000 000	20 000 000
V	11 %	June 15, 1996	25 000 000	25 000 000
W	10¾%	March 15, 1997	25 000 000	25 000 000
X	10⅜%	June 15, 1999	25 000 000	25 000 000
AB	10.95%	December 15, 2005	40 000 000	40 000 000
AC	10.25%	August 1, 2006	50 000 000	—
			$ 290 364 000	$ 250 364 000

*The Series Z Bonds mature May 15, 1987. The holder of any Series Z Bond has the right to elect that such Series Z Bond shall mature on May 15, 1992. Such right may be exercised only after August 15, 1986 and prior to February 15, 1987. It is anticipated that the holders of Series Z Bonds will exercise their right to extend their holdings to mature on May 15, 1992.

The Bonds, except for Series Z and AA, are redeemable at the option of the Company prior to maturity at various premiums to a maximum of 10.95%. Redemptions cannot be made if the funds borrowed for refunding purposes have an interest cost that is less than the initial offering yield of the Bonds redeemed, except as specified in each series.

Interest on Series AA Bonds is payable annually. Interest on all the remaining Bonds is payable semi-annually.

The Bonds are secured by a trust indenture and mortgage and by deeds supplemental thereto containing a first fixed and specific mortgage and charge upon all real and immovable property of the Company and a first floating charge on all other property both present and future of the Company.

11. Debt Due Within One Year

	1986	1985
Bank and other notes	$ 16 816 000	$ 2 873 000
First mortgage bonds, Series Y 16½%, due July 15, 1986	—	30 000 000
First mortgage bonds, Series N 6½%, due March 15, 1987	10 000 000	—
	$ 26 816 000	$ 32 873 000

Debt due within one year is normally refinanced out of the proceeds of longer term financing. This amount is included in total capital in computing capitalization ratios and rates of return on capital.

12. Pension Fund

Pension fund obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The total contribution to the pension fund for the year ended December 31, 1986 amounted to $9 302 000 (1985, $10 303 000). The actuarial review as of December 31, 1985, based on earnings and service to that date, shows that all vested benefits are fully funded.

13. Commitments

At December 31, 1986, minimum operating lease commitments covering building space, tenant improvements and circuits are as follows:

1987	$ 6 069 000
1988	3 976 000
1989	3 820 000
1990	3 709 000
1991	3 468 000
Thereafter	17 345 000
	$ 38 387 000

14. Change in Operating Working Capital

Cash provided by or (used in) changes in operating working capital components:

	1986	1985
(Increase) decrease in accounts receivable	$ (2 204 000)	$ (3 262 000)
(Increase) decrease in current leases receivable	(952 000)	(310 000)
(Increase) decrease in income taxes recoverable	—	5 268 000
(Increase) decrease in prepayments	(2 673 000)	(558 000)
Increase (decrease) in accounts payable	1 903 000	(517 000)
Increase (decrease) in income taxes payable	1 363 000	208 000
Increase (decrease) in interest accrued	63 000	(64 000)
Increase (decrease) in other current liabilities	2 470 000	830 000
	$ (30 000)	$ 1 595 000

15. Related Party Transactions

The Company provides management, administrative, engineering and other operations support services to The Island Telephone Company Limited. Under this arrangement the Company received $4 193 000 during the year (1985, $3 389 000). Included in this amount is $1 849 000 (1985, $1 578 000) for the purchase of materials, supplies and telecommunications property.

16. Dominant Industry Segment

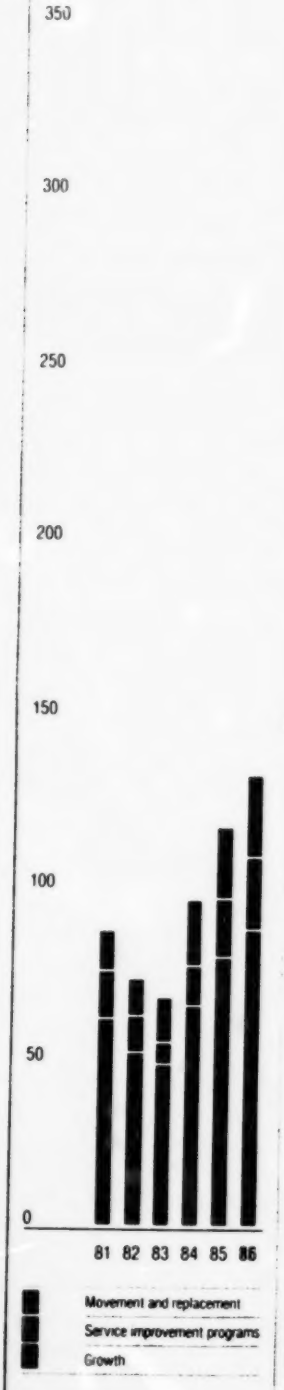
The Company operates in the telecommunications industry, providing telephone, data and a wide range of telecommunications services.

17. Comparative Financial Data

Certain 1985 financial data have been reclassified to conform with the presentation adopted in 1986.

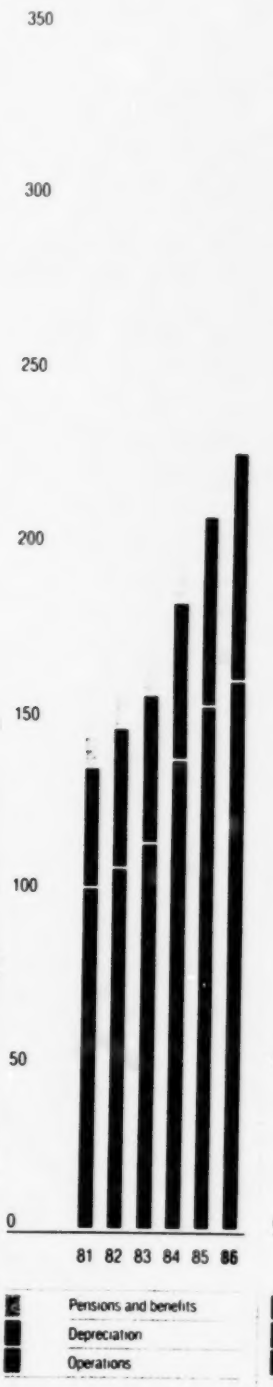
Construction Program

In millions of dollars



Expenses

In millions of dollars

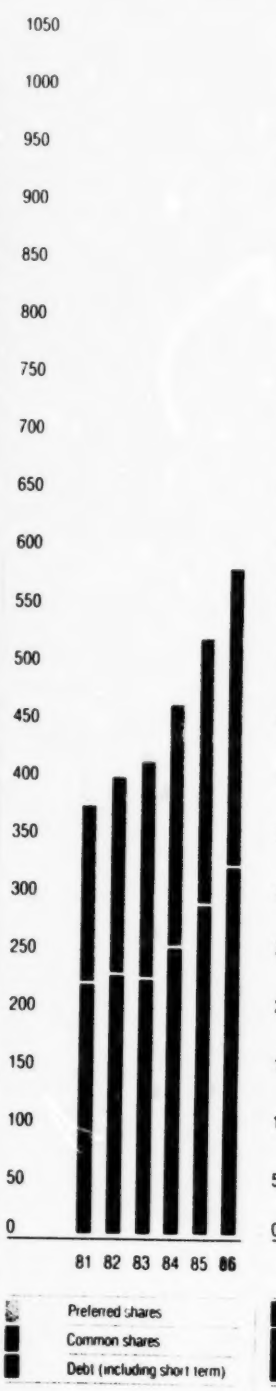


Revenues

In millions of dollars

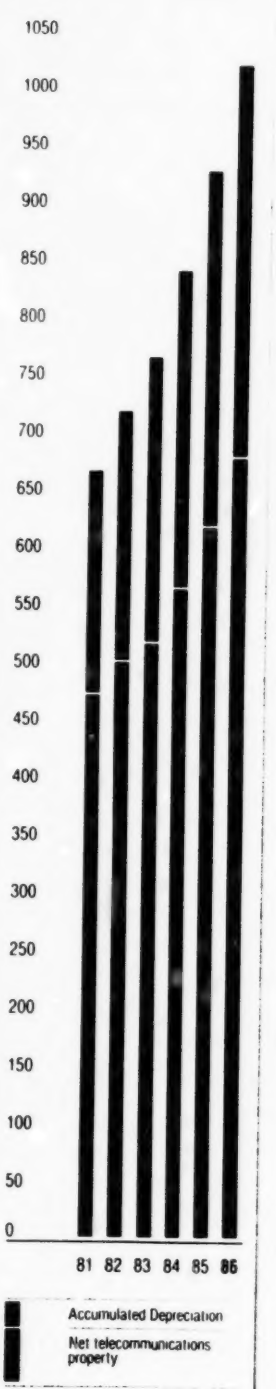
Capital Structure

In millions of dollars



Telecommunications Property

In millions of dollars



Years In Review

	1986	1985	1984	1983	1982	1981
Financial Position at December 31 *(thousands)*						
Telecommunications property	**$1 016 592**	$ 924 090	$ 837 765	$ 762 954	$ 715 964	$ 664 376
Accumulated depreciation	**341 787**	307 890	276 989	247 472	220 083	195 235
Investments	**19 874**	12 643	10 218	9 595	9 117	8 723
Current assets	**63 462**	63 851	58 549	48 242	54 367	38 202
Deferred charges	**5 947**	5 102	5 759	5 306	5 992	6 023
Shareholders' equity	**285 293**	267 497	246 276	226 951	210 171	194 281
Minority interest in subsidiary company	**—**	—	756	—	—	—
Long-term debt	**290 364**	250 364	240 364	217 364	217 364	192 364
Current liabilities	**75 907**	75 936	50 068	42 587	49 107	54 571
Deferred credits	**112 524**	103 999	97 838	91 723	88 715	80 873
Income *(thousands)*						
Revenues						
Local service	**$ 123 983**	$ 116 402	$ 107 915	$ 101 089	$ 93 945	$ 80 024
Long distance service	**189 256**	171 112	155 916	141 627	133 176	119 676
Other, net of uncollectible revenue	**23 177**	22 643	18 349	10 537	8 740	7 602
	336 416	310 157	282 180	253 253	235 861	207 302
Expenses	**234 646**	217 385	193 260	166 393	154 418	142 019
Other income	**3 889**	4 584	5 432	3 679	3 476	2 563
Interest and other debt expenses	**34 746**	30 856	27 655	26 026	25 755	22 690
Income taxes	**36 801**	33 300	33 241	32 943	29 884	21 627
Minority interest in subsidiary net loss	**23**	899	903	—	—	—
Income before extraordinary item	**34 135**	34 099	34 359	31 570	29 280	23 529
Extraordinary item	**1 511**	—	—	—	—	—
Net income	**35 646**	34 099	34 359	31 570	29 280	23 529
Financial Statistics at December 31						
Equity per common share[a]	**$ 11.59**	$ 10 85	$ 10 15	$ 9 45	$ 8 87	$ 8 34
Embedded debt cost	**11.1%**	11 9%	11 8%	11 6%	11 5%	10 7%
Capital structure						
Debt (including short term)	**52.6%**	51 4%	50 2%	49 2%	51 6%	52 8%
Preferred equity	**4.2%**	6 3%	7 3%	8 5%	9 1%	10 0%
Common equity	**43.2%**	42 3%	42 5%	42 3%	39 3%	37 2%
	100.0%	100 0%	100 0%	100 0%	100 0%	100 0%

	1986	1985	1984	1983	1982	1981
Financial Statistics for the year						
Earnings per common share[a]						
Before extraordinary item	$ **1.47**	$ 1 50	$ 1 56	$ 1 47	$ 1 41	$ 1 14
After extraordinary item	$ **1.54**	$ 1 50	$ 1 56	$ 1 47	$ 1 41	$ 1 14
Dividends declared per common share[a]	$ **0.94**	$ 0 92	$ 0 86	$ 0 81	$ 0 74	$ 0 67
Return on average common equity	**13.8%**	14 4%	15 9%	16 1%	16 4%	13 9%
Average common shares *(thousands)*[a]	**21 804**	20 871	20 096	19 320	18 417	17 616
Return on average invested capital	**12.4%**	12 7%	13 2%	13 1%	13 0%	12 0%
Return on rate base	**10.3%**	10 3%	10 9%	10 6%	10 3%	9 8%
Times bond interest earned — before taxes	**3.2**	3 4	3 7	3 6	3 6	3 8
Times total interest charges earned — before taxes	**3.0**	3 2	3 4	3 5	3 3	3 0
Interest and preferred dividend coverage	**2.7**	2 7	2 8	2 8	2 6	2 3
Other Statistics at December 31						
Network access services						
Residence	**309 063**	301 078	293 241	284 502	276 366	272 203
Business	**91 329**	84 300	77 589	72 353	69 716	68 263
	400 392	385 378	370 830	356 855	346 082	340 466
Total Company telephones	**578 907**	583 820	570 722	548 203	532 470	519 328
Employees — Maritime Telegraph and Telephone Company, Limited	**3 764**	3 686	3 553	3 322	3 375	3 597
Employees — subsidiary company	**51**	112	139	65	54	65
Telecommunications property per network access service	$ **2 539**	$ 2 398	$ 2 259	$ 2 137	$ 2 068	$ 1 951
Other Statistics for the year						
Long distance messages *(thousands)*						
In-province	**42 615**	40 270	38 916	35 716[b]	38 560	37 982
Out-of-province	**21 291**	19 375	17 660	15 505	14 196	13 695
	63 906	59 645	56 576	51 221	52 756	51 677
Construction program expenditures *(thousands)*	$ **129 040**	$ 114 000	$ 93 017	$ 64 611	$ 70 091	$ 84 067
Salaries and wages *(thousands)* — Maritime Telegraph and Telephone Company, Limited	$ **114 459**	$ 104 986	$ 92 473	$ 83 956	$ 81 689	$ 76 523
Salaries and wages *(thousands)* — subsidiary company	$ **3 093**	$ 5 512	$ 3 737	$ 1 973	$ 1 914	$ 1 483

[a] All common share data prior to 1985 has been restated to reflect the three-for-one stock split approved by the Company's shareholders, which took effect April 15, 1985

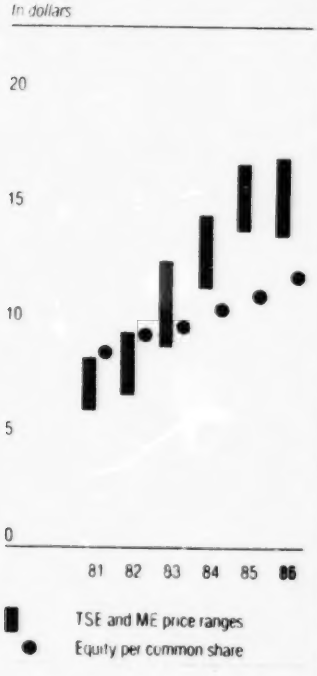
[b] A major expansion in Extended Area Service eliminated approximately five (5) million in-province long distance messages in 1983

Selected Information for Shareholders

	1986	1985
Number of **Holders of Common Shares** at December 31	**13 739**	13 038
Number of **Common Shares Outstanding** at December 31	**22 436 275**	21 443 381
Distribution of Shareholders		
Nova Scotia	**68.0%**	63 0%
Other Canadian	**30.8%**	35 8%
Other	**1.2%**	1 2%
	100.0%	100 0%
Volume of Common Shares Traded		
Toronto Stock Exchange	**1 365 449**	1 945 457
Montreal Exchange	**875 386**	1 820 165
	2 240 835	3 765 622
Price Ranges (high-low) The Toronto and Montreal Exchanges		
First Quarter	**$ 15⅜-13⅛**	$ 14¾-13½
Second Quarter	**16½-14⅝**	16½-14
Third Quarter	**16¾-15**	15⅞-14⅛
Fourth Quarter	**16¾-15**	15⅝-14¼

Valuation Day Prices *December 22, 1971*	
Common shares	$ 7 38
7% preferred shares	$ 9 63

Equity per Common Share and **Market Trading Range**



Stock Registrar
Maritime Telegraph & Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia is the Registrar for 7.0% preferred shares.

The Canada Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of common shares of the capital stock of the Company.

Stock Transfer Offices
Maritime Telegraph & Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia (common shares, 7.0% preferred shares, 7.10% preferred shares, 7.65% preferred shares and 8.60% preferred shares).

Common shares, 7.10%, 7.65% and 8.60% preferred shares can also be transferred at the following locations of Canada Trust:

600 Dorchester Boulevard West
Montreal, Quebec, H3B 1N6

110 Yonge Street
Toronto, Ontario, M5C 1T4

360 Main Street
Winnipeg, Manitoba, R3C 2S6

1801 Hamilton Street
Regina, Saskatchewan, S4P 4B4

505 3rd Street S.W.
Calgary, Alberta, T2P 2G1

1055 Dunsmuir Street
4 Bentall Centre
Vancouver, British Columbia, V7X 1P3

Stock Listings
The Company's common shares and the 7.10%, 7.65% and 8.60% preferred shares are listed on The Toronto Stock Exchange and The Montreal Exchange under the symbol MTT. Information on daily stock prices and trading volumes is available in the Toronto and Montreal Exchange listings in most major daily newspapers. The common shares are listed under the heading ***'Maritime I'***.

Dividends
Quarterly dividends were paid on the 15th day of January, April, July and October, 1986. Common dividends paid amounted to $0.23 per share for each of the first three quarters. The dividend was increased to $0.24 for the October 15th payment, bringing the 1986 total to $0.93 ($0.91 in 1985). The indicated annual dividend rate is now $0.96, an increase of $0.04 over the previous annual rate.

Common Shareholder Dividend Reinvestment Plan
This plan offers holders of the Company's common shares the opportunity to acquire additional common shares at 95 percent of the prevailing average market price through the automatic reinvestment of cash dividends.

Plan participants may also make cash contributions of up to $3000 per quarter for the purchase of additional common shares at 100% of the average market price. No fees are charged to participants under the plan.

A brochure containing further information on the Dividend Reinvestment Plan may be obtained by contacting Investor Services, at the address and telephone numbers listed on this page.

Notice of Annual Meeting
The annual general meeting of the shareholders of Maritime Telegraph & Telephone Company, Limited will be held in the Nova Scotia Ballroom of the Sheraton Hotel, Halifax, on Tuesday, the 24th day of March, 1987 at 11:00 a.m.

Head Office
Maritime Centre
1505 Barrington Street
Post Office Box 880
Halifax, Nova Scotia
Canada, B3J 2W3
Telephone (902) 421-4311

Investor Inquiries:

Mailing Address:
Maritime Telegraph &
Telephone Co., Ltd.
Investor Services
Treasury Department
Post Office Box 880
Halifax, Nova Scotia
Canada, B3J 2W3

Telephone:
421-4068 (Halifax Area)
1-800-565-7168 (Toll free in Canada and the U.S.)
Faxcom: (902) 429-8755